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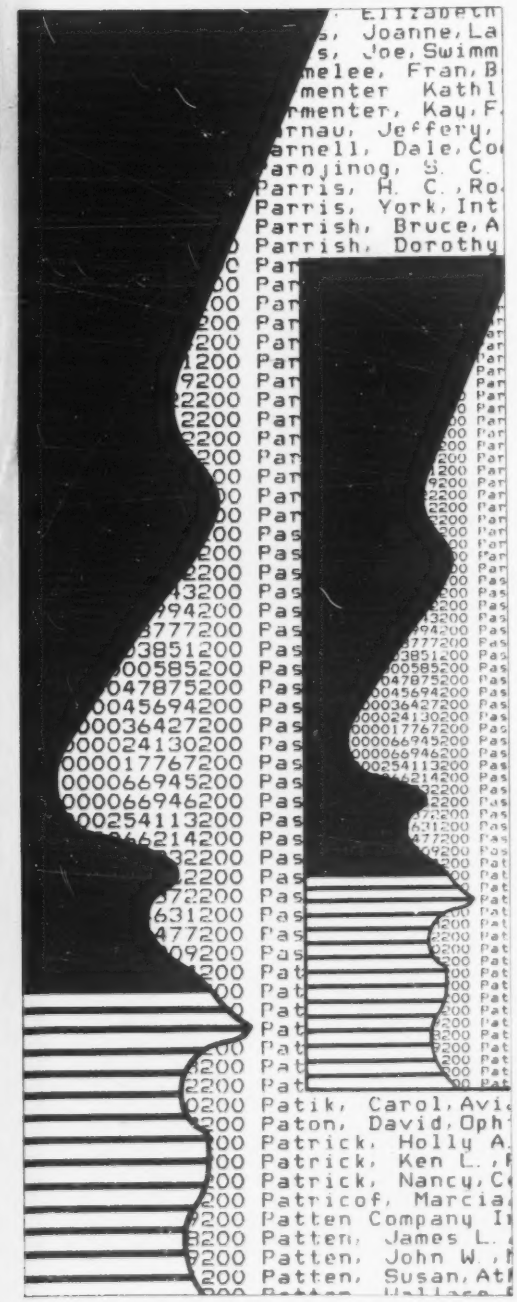


Choosing the right list management

List owners need to ensure that every effort is being made to maximize revenues and to provide list security. For this to happen, they need to choose the right list management organization. Here's a guide to successful selection. **82**

Si Newhouse: Publishing's unassuming dynamo

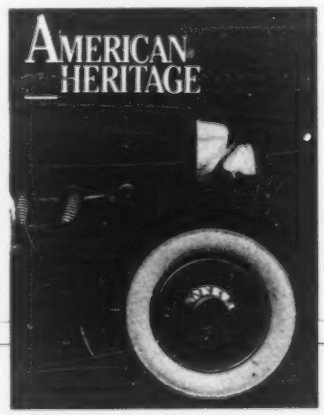
Within a few years, he's started one magazine, revived one, acquired and/or repositioned four more. But this genuinely modest Publisher of the Year gives all the credit to his dad and others. **49**

Release of new SWOP standards imminent

For the first time, printers are being given guidelines addressing inking and dot gain. And the long-awaited selection of a new proofing stock will be made. **21**

Why did Forbes buy *American Heritage*?

Sure, it's got growth potential, but it also fits in with the family's hobbies. **61**



Loose ad enclosures allowed with magazines

Promotions and ads of many kinds can now ride along with magazines in bags, envelopes or tight sleeves, says USPS. Just imagine all the possibilities . . . **38**

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Consumer circulation: Tough times ahead 90

Six disturbing trends in the marketplace make it necessary for the circulation director to take control of the publishing process, a circulation pro asserts.

Good-by paste-up 99

New wave page make-up systems for magazines are fast, affordable, powerful. An update on the capabilities and costs of available systems that could revolutionize your production department.

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A "friendly" introduction to taking *publication-quality* photographs—by a magazine editor who's been doing it. Part 1: Equipment.

1985 was a good year for publishers: MPA's Gorog 156

Some people have dubbed 1985 a bad year, but William Gorog, president of the Magazine Publishers Association, has reasons to conclude otherwise.

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Facing increased consumer resistance in a disinflationary period, circulation pros are trying everything from upping only the introductory rate to backing off.

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'Supercenters' to grow on food retail landscape

Full-service mentality of giant supermarkets should provide secure home for magazines

Washington, D.C.—By 1990, the "supercenter" will nearly eclipse the conventional supermarket as the dominant food-store format, projects a study sponsored by the Food Marketing Institute and Family Circle Inc.

A supercenter is a variation of the "superstore," an evolving breed of retail outlet that has altered the landscape of food marketing in the past decade. Superstores are characterized by their large size—more than 30,000 square feet of floor space producing annual sales of $8 million or more—and by their extensive array of nonfood items and service departments.

The supercenter, as defined by the researchers, is an even bigger superstore, with at least 40,000 square feet of space, broad product assortments, particular emphasis on service departments and attractive store decor. Pathmark, H. E. Butt and Schnuck's are cited as examples of supercenter operators.

Favorable to magazines

The prognosis, by Harvard University faculty members Walter Salmon, Robert Buzzell and Mark Albion and Marci Kosann Dew, a partner of International Marketing Consultants, bodes well for magazines. Supercenters have evolved on the theory that customers want one-stop shopping convenience provided by a full line of food and routine nonfood products, with magazines almost universally included in the nonfood product mix. Other superstore formats that have been developing in the past decade, including warehouse stores, wholesale clubs and food emporiums, carry a more limited assortment of general merchandise but offer other benefits, such as low prices or specialty foods. The researchers predict that these formats will not gain the acceptance that supercenters will in the future.

Super warehouse stores in particular, now viewed as vying with supercenters for consumer patronage, will adapt to be more like supercenters, the study predicts. These mammoth warehouse stores at present offer low prices in bare-bones settings. As increased competition from other large stores makes it harder for them to draw the necessary volume of customers from long distances, warehouse stores will compete by adding more general merchandise lines and service departments.

The role of the conventional, less-than-30,000-square-foot supermarket will shrink, according to the study. By 1990, estimate the researchers, there will be 5,000 supercenters with total retail sales volume of more than $90 billion. The volume represents 40 percent of projected supermarket sales, compared to a 19 percent share in 1983. Sales from conventional supermarkets are seen as falling to $93.3 billion from a 1983 level of $119.4 billion, an annual decline of 3.5 percent.

Implications for suppliers

The study points out several implications of the continued growth of supercenters for merchandise suppliers:

•Because supercenter operators aim to provide convenience by fulfilling a complete range of consumer needs, the outlets should be able to accommodate full selections of routinely purchased general merchandise without infringing on the space needed for food and other traditional supermarket items.

•The large stores should make it easier to introduce new products, because they carry more product lines and have more space available.

•Use of sophisticated merchandising techniques, especially direct product profit analyses, by chain buy-

Projected growth of 'supercenters' versus other types of grocery stores

(sales in billions of dollars)

Type of store	1983	1990	Average annual growth rate
Total grocery stores	$263.8	$292.8	1.5%
Supermarkets—(over $2 million)	189.2	224.9	2.5
–Supercenters (over 40,000')	36.6	90.4	13.8
–Other superstores*	17.5	30.2	8.1
–Conventional (under 30,000')	119.4	93.3	(3.5)
–Warehouse (under 30,000')	15.7	11.0	(5.0)
Smaller grocery	58.1	50.0	(2.1)
Convenience	$ 16.5	$ 23.2	5.0%

*Includes superstores between 30,000 and 40,000 square feet, retail sales of wholesale clubs, hypermarkets and food emporiums

Source: "Superstore formats of the future," Family Circle Inc. and Food Marketing Institute, September 1985

***Rapid growth by** "supercenters"—large, full-service supermarkets—will radically shift the distribution of grocery store sales by 1990, predicts a study on store formats of the future. Magazines stand to benefit from the increased space allotted to general merchandise in such stores. The researchers predict that, by 1990, there will be 5,000 supercenters (including what are now called super warehouses and combination stores) with sales of $90 billion.*

ers will call for more of a "consulting" role on the part of suppliers in selling to headquarters. At the same time, a greater emphasis on tailoring product assortment to local customer preferences implies greater opportunities for in-store promotions. The researchers suggest that these forces together are likely to lead to more widespread use of "two-tiered" sales forces by suppliers—one force to handle headquarters and do store-level "brainwork," the other to do in-store legwork.□

Electronic color printer for proofing unveiled

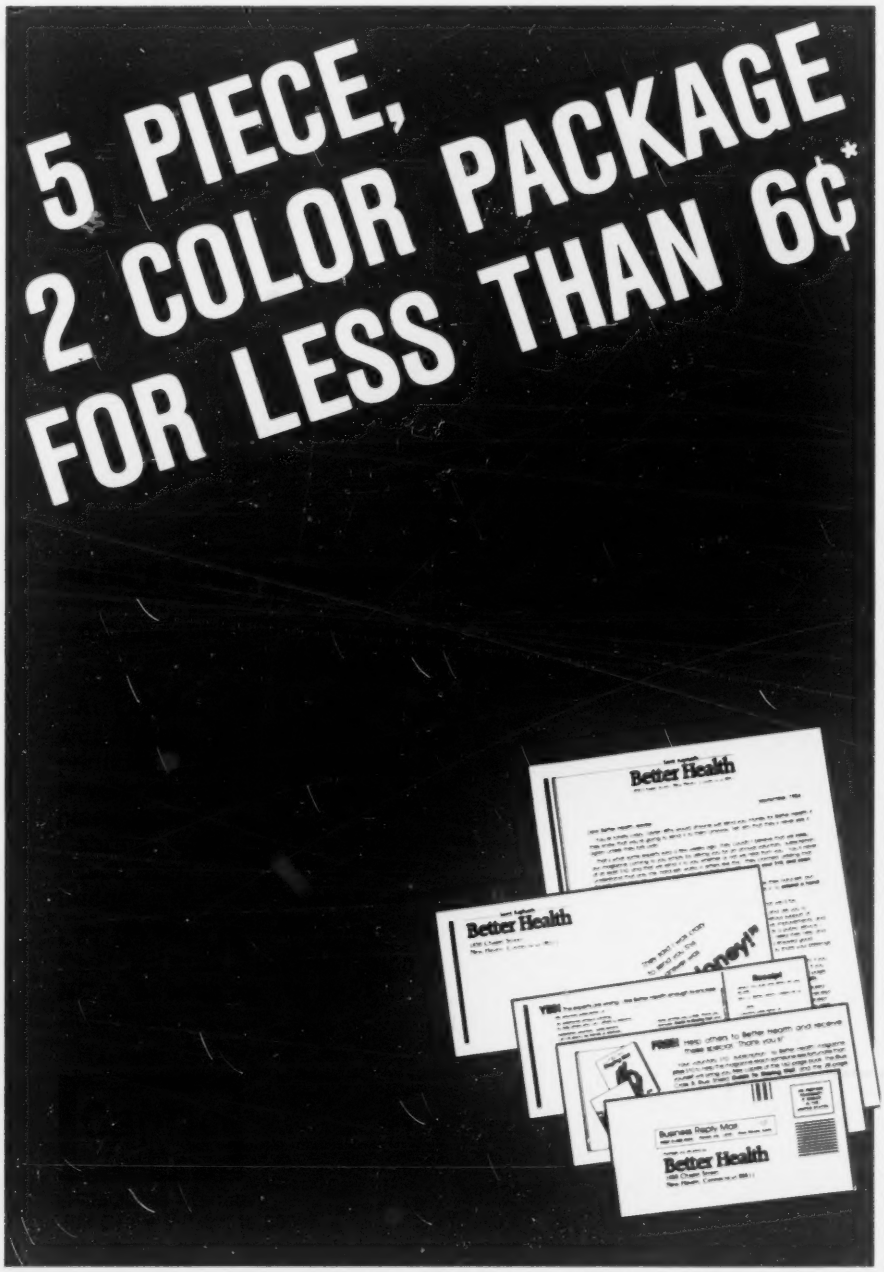
A new color ink-jet printer for electronic color pre-press systems is being touted by its manufacturer, IRIS Graphics, Inc., as a cost-effective alternative to traditional off-press proofing methods.

Officials at the Stoneham, Massachusetts, company say that proofs produced on the IRIS 2044 Color Ink-Jet Printer can be used to check positions of graphic elements on a page or between adjoining pages; to preview results of image retouching and manipulation; to produce multiple copies of proofs for internal and client approvals; and for verifying scanner input. However, the new printer, which lists for $125,000, is not designed as a proofing device for color quality.

Instead of using color separation negatives, the new printer takes digital data directly from an electronic color system, thus making hard copies for previewing available earlier in the production cycle. Then, unlike competing machines which employ photographic printing processes, the IRIS printer uses four ink jets, one each for yellow; magenta; cyan; and black, to lay down ink droplets simultaneously on a spinning drum that holds paper acetate or other media.

IRIS officials claim no other machine on the market can produce prints as large as theirs: up to 33 by 44 inches. The ink-jet printer prints at horizontal and vertical resolutions of 240 dots per inch. The largest prints reportedly take about 30 minutes to produce.

They further predict that, initially, the printer will be used for the most part by color separators, but that, eventually, some publishers will use the printers in their own offices to check "work in progress."□



Industrial advertisers favor business press

Business and industry publications are the top advertising choice of industrial companies, according to an advertising expenditure study conducted by the McGraw-Hill Research Laboratory of Advertising Performance. Of the 461 advertising executives who responded to the survey, 98 percent said that they allocate ad dollars to business publications; only 24 percent said they use consumer publications.

Eighty-seven percent of the respondents buy advertising in directories and buyers guides. Fewer than 17 percent surveyed spent advertising dollars on radio, television, advertising in public transit or outdoor advertising.

The full findings are available in three reports. Contact: Sheldon Wayman, manager, McGraw-Hill Research/LAP, 1221 Avenue of the Americas, New York, N.Y. 10020.□

Consumer circulation: Tough times ahead

Destructive trends in circulation mean circulation directors must retake control of the publishing planning process

BY E. DANIEL CAPELL

The circulation game is really a crazy business. How crazy? Consider the following:

•Circulation directors are forced to limit the number of purchasers of our products because of the constraint we put on ourselves called the advertising rate base. We don't want to sell too many units of circulation—thereby delivering a bonus that advertisers are not paying for. And we certainly don't want to sell less than we promised. It's like telling General Motors or McDonald's to sell only a certain number of cars or hamburgers next year—and no more!

•Circulation directors are limited as to what we can charge for our products. That is, at least the lowest price we can charge. The auditing rules of ABC and BPA define what we can charge and still count as legitimate circulation. Even more amazing is that our own industry played a leading role in letting ABC and BPA tell us what we can charge.

•Circulation directors have little or no control over the package (the cover) that our products are delivered in. Someone else designs the cover—and that someone's purpose seems, at times, to run contrary to the circulation director's.

Given the reality of these constraints, it's no wonder that circulation directors get excited when 3 percent of the people respond to our promotions and 20 percent don't pay their bills.

It's getting harder

Circulation is tough enough even under "normal" conditions—given these self-imposed constraints. But six re-

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E. Daniel Capell is executive vice president of Compuname/Names in the News, editor of Capell's Circulation Report, *and former circulation executive at Time Inc., Ziff-Davis and Newsweek Inc. This article is based on a seminar given by Mr. Capell at The Folio:Show in November 1985.*

Statistics in this article are based on an analysis of public information published about the consumer magazine business, and on the results of six surveys published in Capell's Circulation Report *from 1983 through 1985, representing responses (to each survey) from 200 circulation directors of consumer magazines.*

cent trends in the business have made the job of circulation director even tougher.

1. There is a lack of new business subscription sources. The last major new business subscription source in our business was Publishers Clearing House—and PCH is over 30 years old. The last new direct mail device was the computer letter, and that is older than PCH. Television, once thought to be the next major source of new subscription sales, just has not been a big volume producer for most magazines. And, more than any other reason, this lack of new business breakthroughs has led to the second important trend.

2. Gimmick offers are increasing. Over 80 percent of ABC consumer magazine members now use either a sweepstakes, a complimentary copy, or a premium subscription offer for their direct mail control package. Subs sold with premiums have increased 35 percent in the last year. The

		Fall '83	Fall '84	Fall '85
What is your direct mail control offer?	Sweeps:	16%	9%	7%
	Comp copy:	28	31	43
	Premium:	23	32	33
	Hard offer:	33	28	17

straight, hard-offer approach is now used by only 17 percent of the circulators. As circulation prices increased dramatically in the late 1970s and early 1980s—and more recently as rate bases were pressed to their upper limits—circulation directors with no new sub sources to turn to were forced to use the gimmick (sweeps, comp copy and premiums) to increase response (Chart 1).

3. Price increases are slowing down. Rate base and new business production requirements over the last three years have made it extremely difficult for circulation directors to raise prices. Only 19 percent of the industry raised cover

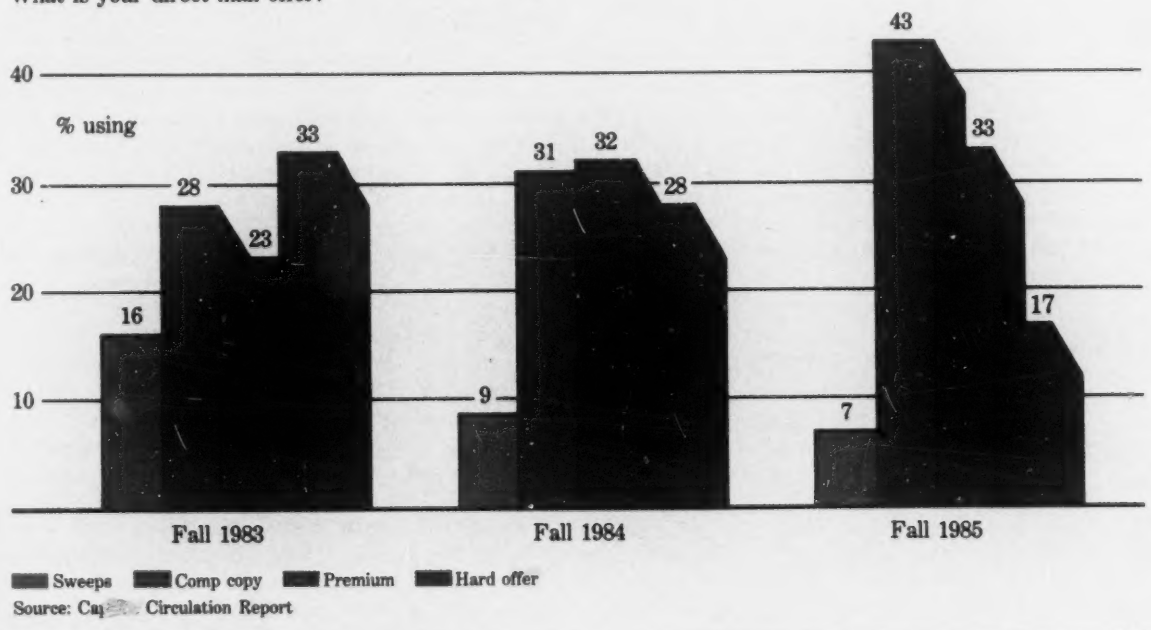
		Fall '83	Fall '84	Fall '85
Did you raise your newsstand price during the year?	Yes:	38%	31%	19%
Did you raise your basic subscription price during the year?	Yes:	38	34	24
Will you be raising your newsstand price next year?	Yes:	21	15	7
Will you be raising your basic subscription price next year?	Yes:	30	24	17

prices in 1985—and only 24 percent raised basic subscription prices. The outlook for 1986 is even more conservative—7 percent and 17 percent respectively.

4. Competition is increasing. The number of consumer magazine titles listed in SRDS is up over 33 percent in the last decade, to almost 2,000 magazines. ABC consumer magazine membership is up over 25 percent in the same period. BPA membership is up 25 percent in just the last five years. The growth of multi-magazine (stamp-sheet) mailers over the last decade has been phenomenal. They are send-

Gimmick offers increasing, hard offers decreasing *Chart 1*

What is your direct mail offer?



Source: Ca[illegible] Circulation Report

***The industry has been taken over** by "gimmick" offers (comp copy, premiums and sweepstakes). The front-end response gains by these efforts can be misleading. Watch net performance—bad pay and cancellations can kill you on some of these soft offers.*

ing out perhaps 400 million pieces of mail annually—and all at the lowest prices available. More and more magazine mailers are going after additional buyers without the benefit of any significantly new methods of selling. The result: more promotion and less response.

		Fall '83	Fall '84	Fall '85
How did your summer mailing performance compare to the prior year's summer mailing?	Better:	39%	40%	15%
	Worse:	32	34	31
	Same:	29	26	54
How did your summer campaign's mailing volume compare to your prior year's year-end campaign?	More:	26%	29%	25%
	Less:	32	50	58
	Same:	42	21	17
How do you see your year-end direct mail volume compared to the prior year-end?	Higher:	59%	44%	32%
	Lower:	13	20	18
	Same:	28	36	50

5. The advertising rate base is dying. Only about 50 percent of ABC's consumer magazine members now make a specific advertising rate base claim. And of the 50 percent that do make a claim, almost 40 percent do not deliver on their promise to advertisers. Advertising rate base promises have become more ingenious. Time Inc.'s IBIT (issue-by-issue tally) and Newsweek's TAG (total audience guarantee) are the two latest examples. The good news for circulation directors is that, as advertising rate base promises become less strict, the management of the circulation department's budget becomes easier and more profitable. Circulation directors no longer have to push circulation levels at almost any cost to deliver ever-inflated rate base promises.

ABC Audit reports released the third quarter of 1985 still show 37 percent of all magazines claiming a rate base coming up short on their rate base promises. But this is the third consecutive quarter that the number of misses has been less than 40 percent—compared to over 40 percent in all of 1983 and 1984. Here are *CCR*'s exclusive tracking results since January 1983:

Period	No. mags. clming. rate base	No. mags. missing	% of mags. missing
1983	192	78	41%
1984	218	87	40
1st Qtr. '85	62	21	34
2nd Qtr. '85	49	19	39
3rd Qtr. '85	70	26	37

6. Newsstand sales are decreasing. Well over half of ABC's consumer magazine members have suffered newsstand sales declines for at least three consecutive years. Almost three quarters have suffered a decline in newsstand percent sale in the last year alone. Over 80 percent of the industry now sells less than 50 percent of its draw. Only 30 magazines have a percent sale of better than 60 percent. The decline in newsstand unit sales has forced circulation directors to "turn on" the subscription source to try to make up the shortfall. Is there a newsstand turn-around coming soon? Most circulation directors (over 75 percent) see a continued sales decline in the foreseeable future (Chart 2).

How the circulation director will cope

Those are the half dozen key trends that I see in the consumer magazine circulation business. Times are obviously tough—with tougher times probably ahead. How will the circulation director cope? The answer lies in returning to the basics of the business.

The best circulation directors never lose sight of the big picture. At the same time, they are well versed in the day-to-day operations of their department. This ability to see both the forest and the trees rests on principles of sound circulation management—in my opinion, 20 principles of sound circulation management. Let's take a look at them.

> "Given the reality of these constraints, it's no wonder that circulation directors get excited when 3% of the people respond to our promotions and 20% don't pay their bills."

Twenty principles of circulation management

1. Learn the business from the bottom up. A circulation director (CD) must understand the nitty-gritty of the circulation business before managing the function. A marketing background—even a *direct* marketing background—is not enough. CDs must have spent time in the trenches.

2. Be opportunistic. Decision making in circulation sometimes straddles that fine line between hunch and reality. A CD must be part computer scientist and part riverboat gambler—with emphasis on the latter. The most successful CDs are the ones who consistently take the best calculated risks.

3. Remember that circulation is first and always a sales business. An understanding of the creative process and the ability to work with creative people are essential to circulation management success. Orders must be sold, paid for and renewed—all at acceptable costs. Creative work should be judged accordingly.

4. Be the prime mover. Circulation is predictable; advertising sales is not. In the publishing planning process, the CD must spearhead the long-range planning because the CD directly controls the only predictable source of income on any magazine.

5. Keep authority in daily management. Meddling in circulation by publishers has become a high art form. The CD must know where to draw the line and should be

free to act unilaterally if necessary.

6. Remember that supplier service is frequently more important than cost. Timing of promotional activities in circulation is crucial. You need the orders as planned. Reliability of suppliers (getting the job done on time) is sometimes more critical than what the job costs.

7. Surround yourself with excellent specialists. No CD can be an expert in every aspect of circulation. Hire strong functional people who shore up your particular weaknesses. If you can't find the needed expertise, buy the specialty on a consulting-and-as-needed basis.

8. Keep it simple. Don't overcomplicate an already complicated business. Don't hide behind the "mystique" of circulation. It is frequently more important to act in circulation than to spend too much time analyzing the data.

9. Budget and plan frequently. Good circulation management requires frequent updates to the current operating plan. The best CDs use the planning system to stay on top of their business.

10. Remember that quality and timing are more important than volume. It is not how many subscriptions you sell, but what kind and when. The use of quality circulation sources and the timing of promotional activities are crucial to long-term circulation success.

11. Understand that circulation is not a profit center. Very few magazines would survive on circulation revenue alone. Stay humble. You might not understand how ad pages are sold, but appreciate their value.

12. Avoid mental gymnastics. In circulation you can usually prove anything that you want to prove through creative manipulation of numbers. Use circulation computer modeling as a planning tool and not as a day-to-day predictor of events.

13. Know your magazine's leverage points. Don't spend time worrying about the seventh billing effort if renewal performance is the key to your magazine's success.

14. Realize that poor short-range decisions are sometimes necessary. Pressures to meet a rate base sometimes demand short-range, stop-gap decision making. The best CDs prepare for any contingency—and try to avoid being forced into poor, short-range decisions.

15. Know that quality circulation is never cheap. The best sources of circulation just simply cost more. You either pay for the business now, or spend twice as much later on the "cheaper" sources to play catch-up.

16. Understand the rules of the game. The best CDs can use the "hedges" of circulation (arrears, backstarting, the ABC audit process) to their advantage.

17. Make pricing decisions carefully. Setting the basic subscription price can be critical. The basic price is important only as a benchmark price. The dollar value of one-half basic is the crucial price. When times are tough, it's the lowest price you can sell at.

18. Understand that newsstand sales is an impulse business. A good cover with a poor distribution will still sell well. Without cover involvement and input, the CD cannot do an effective job managing the newsstand area.

19. Keep excellent historical records. Information should be accurate, easily accessible, and in a format you can use. Fulfillment reporting packages are usually not enough.

20. Know when and what to test. The most successful CDs test only meaningful issues. Test planning should be done at least a year in advance.

Ten critical areas to monitor

Underlying the above list of circulation principles is the necessity for the CD always to be on top of his or her business. Sometimes it seems you could drown in the sea of circulation data that washes over your desk in the course of just one week. No CD can spend time worrying about all this information. Certain numbers are far more important than others to monitor. Following are the 10 most crucial areas for CDs to concentrate their energies.

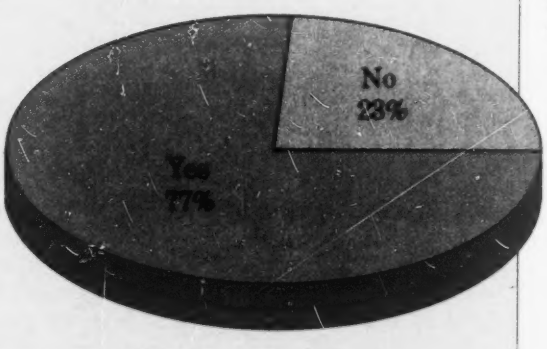
1. New business requirement: Circulation P&Ls rise and fall in direct proportion to how much annual new business a magazine has to sell to replace subscribers who have not renewed. The most circulation money is spent on new business acquisition—and most of the last few thousand new subs acquired to support a rate base. Any action a CD can take to reduce the annual new business requirement is well worth the time it takes.

2. Average term: After renewal percent, no other factor has as great an impact on your new business requirement as the average term of all subscriptions sold (new and

Continued newsstand sales decline expected

Chart 2

In your opinion, will industry newsstand sales continue to decline in the foreseeable future?



Source: Capell's Circulation Report

***Expectations that newsstand sales will continue to decrease** are closely linked to the decision by more circulation directors not to raise newsstand prices this year.*

renew). Try a model run that assumes just a few more issues of term on every sub sold and you will be amazed at the impact it has on reducing new business needs. *Caution:* Be wary of cuts in term on new business offers, particularly on weeklies. This tactic can have a devastating impact on the number of new subs required in future years to maintain the same circulation level.

3. Introductory offers: "Gimmick" offers (comp copy, premium, sweepstakes) have taken over the industry. The front-end response gains of these offers can be misleading. Watch *net* performance—bad pay and cancellations can kill you on some of these soft offers. Are these gimmick offers an ever-increasing portion of your total new business sub sales? Monitor their effect on first-time renewal performance (conversions). Be very careful about use of the word "free." Experiment with alternative wordings of front-end offers that improve back-end results.

"Meddling in circulation by publishers has become a high art form. The CD must know where to draw the line and should be free to act unilaterally if necessary."

4. Source mix: Strive to maintain a balanced use of all new business sources. Avoid drastic shifts in dependence on just one or two sources. Watch the percentage of direct mail versus agent-sold business in your file over the last three years. If there has been a significant change in the mix, why was the change made? Was it justified? Sometimes a move to longer term, agent-sold business is a good way to lengthen the average term in your subscriber inventory. But watch source trade-offs that will negatively impact renewal performance.

5. Renewal percent: Be realistic. For established magazines with relatively sound renewal promotion programs, dramatic improvement in renewal percent is extremely rare. Spend your time monitoring the results of the first two renewal efforts. If slippage is occurring there, overall renewal performance will most certainly be off. Pricing and the timing of efforts are usually more critical to renewal percent than the creative approach used.

6. Insert card results: Insert card results in your own magazine are frequently the earliest warning signal of problems ahead. Watch insert card return percents very carefully after a price increase. Price recovery should happen within three issues. Newsstand insert card results are the earliest indicator of how an issue is selling. Volume of orders will be up significantly if an issue is doing well on the newsstands. And this information will be available to you long before your national distributor provides you with any firm sales estimates.

7. Newsstand sales: Concentrate your efforts on improving both unit sales performance *and* percent sale. It's tough to have improved unit sales and percent sale at the same time, but that should be the CD's goal. Don't be misled by a respectable six-month average sale that has been inflated by just one or two very good-selling issues. You can't count on always having one of those top-sellers. Forget about early newsstand sales estimates from your national distributor. Instead, monitor the actual return flow for more accurate sales information.

8. Acquisition costs: Shoot for improving *net* cost per new sub acquired. This may mean spending *more*, not less, on a new business package in order to get improved net results. Do not evaluate circulation acquisition costs in a vacuum. Every magazine's acceptable cost per order is directly influenced by the number of ad pages sold, and the cost per thousand charged for those ad pages. High ad page volume/high CPM magazines *should* be spending heavily to acquire new subscribers. Magazines driven primarily by circulation revenue have to take a more cost-conscious approach to new business spending.

9. Test results: Concentrate your energies on the ongoing evaluation of price, package and list testing results. Make sure your test budget is large enough to get answers to all the questions critical to your business. Testing should be continual and all results analyzed at least weekly. Act quickly to take advantage of all positive test results.

10. Industry trends: Watch the subscription sales volumes of your largest suppliers very closely—namely Publishers Clearing House and American Family Publishers. The stamp-sheeters, because of their huge mailing volumes, are the best place to take the pulse of the industry. If your largest subscription suppliers show early signs of being off from your estimate, the odds are good that problems with other sources will follow.

Taking charge

What does all this mean for the circulation director in the years ahead? We have looked at the important trends and reviewed how best to cope with the tougher times. What role should the circulation director play in the publishing planning process in the future? It seems to me that we, as the circulation industry, have lost sight of our dual role: the analytical and the creative aspects of our job function. We have fallen prey to paralysis through analysis. We have become enamored with the analysis side of the business—the computer model runs, the endless source evaluation exercises. We have forgotten that this is a sales business! We have to turn on the creative side of our job again. We have to develop new sources, new ways to express an offer. And we must reassume the role of creative marketing director.

We must become the prime mover, the motivator, the instigator in the publishing planning process. We cannot let the advertising sales side of the business drive our circulation operations. Not only has circulation become a primary revenue producer, but we are the only one of the two publishing revenue streams that can predict, with some degree of accuracy, what today's actions mean to tomorrow's P&L. Circulation people are the first to know when a magazine's circulation level is straining. We are the first to see those lower return percents or that declining newsstand sales percentage. We cannot allow ad sales "greed" to take over—*i.e.*, forced growth in circulation to take advantage of a presumed growth in advertising pages.

Planning in publishing is no planning at all without ad sales and circulation working in concert. And, without circulation being the driving force in the planning process, the difficult times ahead in the circulation industry will not be effectively met and managed.□